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DEPARTMENT FOR EAP/CM, EAP/K, PRM

E.O. 12958: DECL: TEN YEARS AFTER KOREAN UNIFICATION
TAGS: [PREL](#) [PINR](#) [PGOV](#) [ECON](#) [ETRD](#) [KN](#) [KS](#) [CH](#)
SUBJECT: PRC/DPRK: IMPACT OF PRC EXPORT RESTRICTIONS;
DEADLOCK OVER NEW TRADE BRIDGE; INTER-KOREAN TRADE NEAR
DANDONG

REF: SHENYANG 14

CLASSIFIED BY: CONSUL GENERAL STEPHEN B. WICKMAN.
REASONS: 1.4(B)/(D).

1. (C) SUMMARY: NEW PRC EXPORT RESTRICTIONS ARE DELAYING, IN SOME CASES BY MANY WEEKS, SHIPMENTS OF KEY CHINESE COMMODITIES TO NORTH KOREA VIA DANDONG. IN LIMITED CASES, BEIJING IS GRANTING TEMPORARY WAIVERS FOR PRC FIRMS WITH LARGE, PREEXISTING CONTRACTS IN THE DPRK. PYONGYANG IS DISPLEASED, AND DANDONG OFFICIALS EXPECT A MORE ACUTE NORTH KOREAN REACTION IN LATE SPRING. UNEASY LIAONING OFFICIALS ARE CURRENTLY LOBBYING BEIJING TO WAIVE THE NEW RESTRICTIONS FOR NON-AID, DPRK-BOUND SHIPMENTS IN THE INTEREST OF BORDER STABILITY. A FUNDING DISPUTE DEADLOCKS BILATERAL TALKS OVER A NEW PRC-DPRK TRADE BRIDGE NEAR DANDONG. NORTH KOREAN CARGO SHIPS WEEKLY HAUL COPPER, IRON ORE AND OTHER RAW MATERIALS TO DANDONG'S DADONG PORT, WHERE SOUTH KOREAN FIRMS NEARBY CREATIVELY TRADE WITH NORTH KOREAN ENTERPRISES THROUGH CHINESE INTERMEDIARIES. END SUMMARY.

2. (C) POLOFF TRAVELED FEBRUARY 25-27 TO THE SOUTHERN END OF THE PRC-DPRK BORDER. SITES VISITED INCLUDE DANDONG, THE STRATEGIC THOROUGHFARE OPPOSITE SINUIJU THROUGH WHICH THE MAJORITY OF PRC-DPRK TRADE FLOWS; DONGGANG, SITUATED ROUGHLY 60 KILOMETERS SOUTH OF DANDONG NEAR THE YELLOW SEA; AND QIANYANG, A SHORT DRIVE FROM DONGGANG.

PRC, DPRK RESPONSES TO SLOWDOWNS IN CROSS-BORDER TRADE

3. (C) NEW PRC RESTRICTIONS ON CERTAIN AGRICULTURAL EXPORTS LIKE GRAIN (REF A), ACCOMPLISHED VARIOUSLY THROUGH INCREASES IN EXPORT TARIFFS, THE CANCELLATION OF EXPORT REBATES AND/OR THE "CAPTURE" OF CERTAIN COMMODITIES BY A NATIONAL EXPORT-QUOTA REGIME, ARE GENERATING PRC-DPRK TRADE FRICTIONS AND CONCERN IN THE DANDONG-SINUIJU AREA, ACCORDING TO YANG WENJIA (STRICTLY PROTECT), CHIEF OF THE FOREIGN TRADE ADMINISTRATION SECTION OF DANDONG'S FOREIGN TRADE AND ECONOMIC COOPERATION BUREAU. YANG PRIVATELY TOLD POLOFF ON FEBRUARY 26 THAT AS A RESULT OF THE NEW EXPORT RESTRICTIONS, THE MINISTRY OF COMMERCE (MOFCOM) HAS BEEN INUNDED WITH EXPORT-PERMISSION APPLICATIONS LEADING TO DELAYS--IN SOME CASES OF MANY WEEKS--BEFORE CHINESE FIRMS

RECEIVE APPROVAL FOR THEIR INTENDED SHIPMENTS FROM DANDONG TO NORTH KOREA.

14. (C) IN CERTAIN CASES INVOLVING DPRK-BOUND SHIPMENTS, MOFCOM IS TEMPORARILY WAIVING RESTRICTIONS FOR PRC FIRMS HAVING LARGE, LONGSTANDING CONTRACTS WITH NORTH KOREAN COUNTERPARTS. THE AIM, YANG SAID, IS TO MITIGATE, AS MUCH AS POSSIBLE, POTENTIAL DAMAGE TO EXISTING PARTNERSHIPS AND THE "IMAGE OF CHINESE FIRMS ABROAD." ONCE THE CONTRACTS EXPIRE, HOWEVER, CONTINUED EXEMPTIONS ARE NOT GUARANTEED. ASKED HOW PRC FIRMS IN THE DANDONG AREA ARE RESPONDING TO THE RESTRICTIONS, YANG REPLIED THAT MOST ARE FOCUSING ON OTHER, COMPARATIVELY MORE HASSLE-FREE COMMODITIES. YANG CLAIMED NORTH KOREAN FIRMS IN JANUARY INITIALLY REFUSED TO BUY CHINESE COMMODITIES AT THE HIGHER PRICES WROUGHT BY PRC DOMESTIC INFLATION AND THE NEW EXPORT RESTRICTIONS. BUT MOST HAVE SINCE RELENTED, IN PART BECAUSE THEY NOW UNDERSTAND THE ECONOMIC LOGIC, AND IN PART BECAUSE THEY RECOGNIZE THEY HAVE NO CHOICE BUT TO "EAT A LOSS" (CHI KUI) TO PROCURE CRITICAL COMMODITIES. YANG SAID HE EXPECTS A FULLER NORTH KOREAN REACTION IN THE APRIL-MAY TIMEFRAME, BY WHICH TIME MORE CONTRACTS WILL EXPIRE AND POTENTIAL PRC GOVERNMENT-SANCTIONED PRICE HIKES IN CHINA MIGHT LEAD TO A MORE ACUTE CRUNCH FOR THE DPRK.

DANDONG CONCERNED, LOBBYING BEIJING FOR PRC-DPRK WAIVER

15. (C) LOCAL DANDONG AND PROVINCIAL LIAONING OFFICIALS EXPRESS PRIVATE CONCERN ABOUT THE SITUATION AND ARE INTERNALLY LOBBYING BEIJING TO WAIVE THE EXPORT RESTRICTIONS FOR RELEVANT COMMODITIES IN PRC-DPRK TRADE, YANG SAID. THEIR ARGUMENT: GRAIN AND OTHER AGRICULTURAL EXPORTS TRANSITING DANDONG, WHETHER IN DOLLAR TERMS OR BY VOLUME, ACCOUNT FOR A RELATIVELY MINOR PORTION OF

LIAONING'S AND THE PRC'S OVERALL EXPORTS. BECAUSE OF THIS--AND THE VIEW THAT NON-AID CHINESE AGRICULTURAL EXPORTS ARE CRITICAL TO SUSTAINING THE DPRK, THEREBY SHORING UP LIAONING'S BORDER STABILITY--LIAONING OFFICIALS BELIEVE PRC-DPRK TRADE NEEDS TO BE GRANTED SPECIAL CONSIDERATION.

PRC-DPRK DEADLOCKED ON NEW BRIDGE ACROSS THE YALU

16. (C) ON ANOTHER TOPIC IN PRC-DPRK RELATIONS, YANG DOWNPLAYED A RECENT PRESS REPORT CLAIMING THE PRC IS "ACCELERATING" PLANS FOR A NEW BRIDGE CONNECTING DANDONG WITH SINUIJU ACROSS THE YALU RIVER. AT PRESENT, A SINGLE, TWO-LANE BRIDGE DATING BACK TO THE JAPANESE OCCUPATION LINKS THE TWO CITIES. A RAILROAD OCCUPIES ONE LANE, WHILE THE OTHER, INITIALLY INTENDED AS A LANE FOR TRAIN-TRACK REPAIR VEHICLES, IS USED FOR CROSS-BORDER TRAFFIC. CAPACITY IS FAR FROM OPTIMAL, AND SINCE PRC-DPRK CARGO TRAFFIC CAN TRANSIT ONLY ONE WAY AT A TIME, SHIPPING IS SLOW AND BOTH THE DANDONG AND SINUIJU LAND PORTS REGULARLY SUFFER FROM UNNECESSARY BOTTLENECKS. BOTH BEIJING AND PYONGYANG HAVE BEEN TALKING AT THE STATE-TO-STATE LEVEL "FOR A WHILE NOW" ABOUT A NEW BRIDGE, BUT TALKS ARE HUNG-UP OVER FUNDING. YANG SAID THE DPRK IS DEMANDING PRC FUNDING FOR THE BRIDGE AND ITS FUTURE MAINTENANCE IN THE FORM OF IRREGULAR AID, SOMETHING TO WHICH BEIJING HAS NOT WARMED. YANG, WHO CONTINUES TO RAISE THE ISSUE WITH VISITING NORTH KOREAN COUNTERPARTS, BELIEVES A RESOLUTION IS UNLIKELY IN THE NEAR TERM, THOUGH A NEW, MODERN BRIDGE WITH SUFFICIENT CAPACITY FOR CROSS-BORDER CARGO TRAFFIC WOULD YIELD CONCRETE BENEFITS FOR BOTH SIDES. (WHILE DANDONG FORMULATED A DETAILED PLAN FOR THE BRIDGE, BOTH THE LOCATION AND FORMAL APPROVAL REMAIN ELUSIVE, YANG SAID.)

DANDONG LAND PORT: A SITREP

17. (C) DURING A VERY BRIEF OBSERVATION AT THE DANDONG LAND PORT ON FEBRUARY 25, CROSS-BORDER CARGO TRAFFIC MIMICRED LEVELS OBSERVED DURING RECENT VISITS AT THE SAME TIME INTERVAL. BETWEEN 1030 AND 1100, APPROXIMATELY 60-70 MOSTLY LARGE, SEALED CHINESE CONTAINER TRUCKS HAVING PRE-CLEARANCE TAGS PASSED WITHOUT ADDITIONAL INSPECTION INTO

SINUJU. FLATBED CHINESE TRUCKS HAULED A NUMBER OF DIESEL GENERATORS, PIECES OF INDUSTRIAL FARMING EQUIPMENT AND TRACTORS. BOXES OF BANANAS, MEAT AND CLOTHING CHOKED MANY CHINESE DRIVERS' CABS. A NUMBER OF NORTH KOREANS LOITERED IN THE PORT COMPLEX, MOSTLY STANDING BESIDE SHINY, LATE-MODEL JAPANESE SUVS AND PASSENGER BUSES WITH NORTH KOREAN PLATES.

DADONG SEAPORT: INCOMING NK CARGO, INTER-KOREAN TRADE

18. (C) NORTH KOREAN CARGO SHIPS, MANY ORIGINATING IN NAMPO, TRAVEL SEVERAL TIMES EACH WEEK TO DANDONG'S DADONG PORT IN DONGGANG, WHICH HUGS THE YELLOW SEA AND YALU RIVER. ONCE UNLOADED, CARGO--MOSTLY RAW MATERIALS, INCLUDING COPPER AND IRON ORE--IS TYPICALLY PROCESSED AT FACTORIES WITHIN THE ADJACENT DONGGANG DEVELOPMENT ZONE AND THEN EXPORTED ABROAD OR ELSEWHERE IN CHINA, ACCORDING TO YU ZHENDONG (STRICTLY PROTECT), A VICE DIRECTOR OF THE DONGGANG ECONOMIC DEVELOPMENT ZONE'S ADMINISTRATIVE COMMITTEE. YU AND JIANG HAIJUN (STRICTLY PROTECT), ANOTHER VICE DIRECTOR OF THE ZONE'S ADMINISTRATIVE COMMITTEE, NOTED THAT SOUTH KOREAN FIRMS INVESTED IN THE ZONE CONDUCT BUSINESS WITH THE DPRK THROUGH CHINESE INTERMEDIARIES. TWO METHODS PREDOMINATE. THE FIRST INVOLVES CHINESE PARTNERS IMPORTING NORTH KOREAN RAW MATERIALS VIA DADONG HARBOR, WHEREUPON ROK FIRMS PROCESS THE INPUTS WITHIN THEIR NEARBY FACTORIES AND ULTIMATELY EXPORT THE GOODS ABROAD. THE SECOND, PRIMARILY CENTERED ON GARMENTS/TEXTILES, INVOLVES SENDING INPUTS TO A NORTH KOREAN FIRM FOR LOW-COST PROCESSING; THE GOODS ARE THEN SUBSEQUENTLY SHIPPED THROUGH DADONG HARBOR AND ULTIMATELY EXPORTED BY THE SOUTH KOREAN FIRMS. OVER TWENTY ROK FIRMS ARE CURRENTLY INVESTED IN THE DONGGANG ECONOMIC ZONE, THOUGH IT IS UNCLEAR HOW MANY ARE INVOLVED IN INDIRECT INTER-KOREAN TRADE.
WICKMAN